

# INTERNATIONAL COOPERATION BETWEEN PUBLIC-ACCOUNTANTS AND ITS IMPACT ON HARMONIZATION

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Below, under „1. Introduction”, a distinction is made between (i) international cooperation of public accountants and/or accountants' firms having private aims and (ii) international cooperation of national bodies of accountants - generally „Institutes” - having common and public aims. When reference is made to „firm(s)”, this word is also meant to cover sole practitioners.

Another distinction, made in the same section refers to the procedures aimed at a greater uniformity within the profession, to be achieved either by harmonization or by the dominating party imposing its standards upon the other party or parties.

Sections 2, 3 and 4 deal with international cooperation between firms, its forms and reasons and its impact on harmonization.

International cooperation between institutes and the impact thereof on harmonization is discussed in sections 5 and 6.

As, ultimately, international cooperation can be achieved only by means of direct contacts between individuals, some attention is given to what is required of the persons engaged in such contacts.

## 1 Introduction

1.1. When dealing with international cooperation between public accountants, such cooperation, either within one accountants' *firm* or between two or more accountants' *firms* domiciled in different countries<sup>1)</sup> should be distinguished from cooperation between accountants' *bodies* domiciled in different countries.

1.2. The principal reason for international cooperation within one or between different firms is to improve the services rendered to its (their) clients and, thus, to improve or at least maintain its (their) economic position in their respective countries. So, the ultimate goal is the *firm(s)' interest*. The principal goal of international cooperation between accountants' bodies is to serve *the interest of the profession* proper and, thus, the interest of the individual members of the bodies concerned. The first-mentioned cooperation relates to private interests, the second one to interests common to the profession taken as a whole.

1.3. As long as the home rules of a firm comply with its national professional rules and as long as such national rules are adjusted in due time to changing important conditions, there should be no reason for a substantial

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<sup>1)</sup> When referring to international cooperation between public accountants' firms I will deal with cooperation at partners level only. International exchange of staff - which might also be considered as a form of international cooperation - is valuable and should more be fostered by firms and Institutes than has been the case till now, but it will not be dealt with in this article.

conflict between the firm's interests and those of the profession taken as a whole. The special problems connected with the concentration of large numbers of public accountants into a small number of firms become more intricate if and when such firms start operating in the international field. When determining their policies and strategies they must keep in balance the firm's interests as well as the professional rules prevailing in not only their own country but also those in the foreign countries where these firms are either operating or cooperating.

1.4. The subject matter of this paper is also meant to deal with harmonization, without, however, differentiating between the various component parts of the profession e.g. accounting, auditing, ethics, education. Harmonization of our profession is aimed at achieving uniformity in principles, rules and other requirements. Such uniformity might be achieved by one of the parties involved imposing its system on the other one(s) without making preliminary comparisons or discussing the problems on equal terms.

One-way traffic, however, is not the procedure indicated for harmonization. It should be based on comparative studies by and discussions between all parties concerned, with a view to arriving at a mutual and clear understanding of the background of and existing differences between the respective professional philosophies, and to narrowing these differences in such a manner as to achieve an optimal solution applicable to all parties.

## **2 Forms of international cooperation between public accountants**

2.1. Although some American, Canadian and British accountants' firms already cooperated internationally in some way or other before World War II, a major development manifested itself in the fifties and the sixties.

2.2. The primary reason for accountants' firms to operate internationally was to follow their clients in their going abroad. Thus, the increasing internationalization of business caused a world-wide network of international offices, either by establishing branch offices or by cooperating with accountants' firms of other nationalities.

2.3. The most common forms for international cooperation between firms are:

- (i) a national firm merging with a foreign one and conducting its whole practice under the name and rules of the latter;
- (ii) a national firm and a foreign one establishing a joint venture in the former's country under the name and rules of the latter. This enables the national firm to remain independent and to operate under its own name for its national work, whereas the joint venture performs all jobs referred to it by the foreign firm. Mostly, such jobs will be confined to audits of subsidiaries or affiliated companies of foreign parent companies;
- (iii) in countries where professional rules prohibit cooperation with

foreign auditors in one entity, international cooperation of public accountants of various nationalities is mostly based on an exclusive representation agreement between a national firm and a foreign firm, according to which the latter firm will delegate to the national one as much work to be performed in the latter's country as is possible while the national firm under its own (local) name will perform these jobs in accordance with both its own and the foreign firm's standards. Usually, the representation agreement also covers the possibilities of exchanging know-how and personnel;

- (iv) a more indefinite form of cooperation is the one of correspondent. In this case no specific agreement governs the cooperation, which is not exclusive either, but the national firm has declared itself willing to accept jobs referred to it by foreign firms. There is a likelihood of some exchange of know-how, but mostly this is limited to what is required for a proper execution of the delegated jobs.

The aforementioned forms of cooperation have been practised by several big firms, particularly by the „Big Eight“. Actually, if the firms are domiciled in a number of countries, a large firm, from the centre of the set-up, usually dominates in many respects the activities of the inter-firm cooperation, thus enabling the rendering of world-wide services to its clients, while satisfying its current and prospective clients that the firm is in a position to render world-wide services at its own professional level.

The centre-firm of such international groups issues world-directories that list the names of its own partners and managers and of those of its associated firms, representatives and its correspondents.

- (v) in the beginning of the seventies, contrary to the aforementioned forms of cooperation in which one firm dominates, some international firms or other legal forms of association were established in Europe, in which associations firms of different nationalities are participating on an equal footing. Dutch firms participate in some of such international set-ups. Little has as yet been published about the structure of these international firms, which are held to differ in both type and structure. The European partnership in which a British firm, a German firm and the firm of which I am a member, participate, performs under its European name all *international* jobs referred to it by one of the participating firms or by others. The cooperation does not affect the domestic practice of the firms involved.

### **3 International cooperation between public accountants; why and how**

3.1. It is self-explanatory that international contacts between people is of utmost importance in many respects. The same applies to comparative studies of professional matters or of other phenomena in different countries. Like in all fields of knowledge professional philosophy is deepened and

techniques are improved when certain aspects thereof are critically compared with foreign approaches and usages. Thus it is surprising that in many countries the educational programmes of the various accountants, Institutes leave little, if any, room for analyses of foreign views and developments. Although indeed each country's own professional rules, standards and techniques form the essence of the education, some knowledge about the principal features of the profession in the surrounding and in other leading countries is very conducive to not only a mutual understanding in international contacts, but also to a better insight into the strong and weak aspects of one's own professional practice. In professional magazines, too, information about foreign views and developments has been very limited up to now. Fortunately, the international contacts that have been developed or intensified in the last decade have resulted in more literature about international developments. The principal remaining problems are scarcity of time of good authors and the language barrier.<sup>2)</sup>

3.2. International cooperation as referred to in the introductory section of this paper implies more than international contacts and comparative studies. In essence it is realized by public accountants of two or more countries creating a more or less durable form of cooperation with a view to rendering better services and achieving other desirable results. The forms in which such cooperation between public accountants has been and is still being achieved, as well as the main reasons for going internationally have been stated under 2. above.

3.3. The private interest of public accountants going international is conducive to establishing such a cooperation as fits them best. Naturally, this interest should be based on a long term view. From the standpoint of the entire profession, however, nationally and, in my opinion, also internationally, the problem of how to achieve the best international cooperation is a more complicated one.

3.4. Except in countries in which accountancy is poorly developed, the national professions will have to maintain their own identity as long as business in such countries maintains its national character<sup>3)</sup>, which, in my opinion, will normally be the case as long as, economically, the nation remains independent.

If international cooperation between public accountants results in a dominating position of the foreign accountants' firms as to the procedures to be followed and the standards to be maintained in principle, such a position interferes with the national profession's interest of maintaining its own identity. This comment is not meant to imply any negative judgment

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<sup>2)</sup> Many Dutch accountants experience the great advantage of having at least a working knowledge of English, French and German (and sometimes of more foreign languages).

<sup>3)</sup> In each country where they are operating, multinational or international companies, too, are confronted with many national aspects, if not in the field of management then at any rate in relation to their employees, the government and the common weal.

whatsoever about the quality of the standards governing the dominant firm's activities. In the international field many international firms are operating at high standards that serve as important guidelines for firms of other nationalities. The comment is only meant to stress the significance of maintaining the identity of a national profession.

3.5. Since 1973 the Dutch rules of professional conduct provide the possibility of cooperating in partnership with foreign accountants. The association is to be approved by the Council of the N.I.v.R.A. The primary condition for this approval is that the arrangement underlying the association warrants that it shall act in accordance with rules and standards that do not detract from the Dutch professional rules. This is meant to enable the Dutch accountants involved to fully comply with the rules of their Institute. Evidently, both the first and second form of international cooperation referred to under 2.3. above stand in the way of such a guarantee and, thus, interfere with the prerequisite of maintaining the national identity of the profession. Generally, the two other aforementioned forms of international cooperation do not detract from this condition, provided the national partners involved are fully aware of what is at stake.

3.6. In the field of application of accounting principles (including the valuation of assets and liabilities) it is notable that often the standards and principles prevailing in the country where the parent company is domiciled are strongly stressed by both such international companies and the international accountants' firms involved. This results in neither the chief-accountant nor the auditor of the subsidiary being hardly, if at all, in a position to apply or even to submit for consideration the possibilities provided by their national accounting principles. For consolidation purposes and for reasons of uniformity within the group this is inevitable, but, in my opinion, it is highly frustrating if the controller or auditor of the parent-company is inadequately informed to even consider the merits of the views developed in the country in which the subsidiary is situated. Such a situation results in meetings with local accountants being more of a dictatorial nature than contributing to optimal accounting policies.

An exchange of views on accounting and auditing matters between accountants of different countries deepens the know-how and particularly the know-why when tackling the professional problems that, both internationally and nationally, require a solution.

Thus, it is remarkable that the enormous flow of capital from the USA to Europe, invested in the late fifties and in the sixties in branch offices and subsidiaries, has not resulted in a spread of critical knowledge of European accounting principles and auditing standards nor in a modification of the American concepts of accounting and auditing. I cannot believe that during the markedly increased international contacts in the field of accountancy Europe was expected to hide its light under a bushel and to learn only, while all other parties thought themselves mighty wise.



#### **4 Impact of international cooperation between firms on harmonization**

4.1. Reverting to the main subject of this paper, viz. international cooperation between public accountants, the question has to be answered as to what impact international cooperation with or between firms has on harmonization.

4.2. With reference to what is stated under 1.4. above about the philosophy that is felt to be a prerequisite for international harmonization I would submit that, so far, the direct effect of „private” international cooperation on harmonization within the profession is very little or nil. Indirectly, however, the effect of international cooperation between a number of firms, each of which representing an important segment of their respective domestic profession, may be greater. Preliminary exchanges of views on accounting and auditing matters within the accounting firms involved are contributory to the preparation for harmonization.

4.3. All of these private activities, however, will have to be brought under a common denominator. This, in my opinion, will not be possible until the profession as a whole, grouped in national Institutes, is cooperating internationally.

#### **5 International cooperating between national Institutes**

5.1. It is not public accountants only, but all duly qualified accountants, that, irrespective of their function, are involved when professional Institutes engage in international cooperation.

5.2. Since 1926 the national Institutes of accountants have periodically cooperated in international congresses of accountants<sup>4</sup>).

Though providing opportunities for personal contacts and exchange of opinions, such international congresses are not primarily aimed at harmonization. It may be expected that the 11th International Congress in 1977 and the VIIIth UEC-Congress in 1978 will provide ample opportunity for reflection on how to gain experience in harmonization, and, thus, will prove to be the first steps on the way towards achieving international harmonization.

5.3. Following a report issued by an International Working Party formed after the 9th International Congress of Accountants at Paris (1967), the meeting of the Heads of Delegates, at the beginning of the 10th International Congress of Accountants at Sydney (1972), founded the International Coordinating Committee of the Accounting Profession (ICCAP) with the object of developing a coordinated world-wide accounting profession with uniform standards. In its meetings ICCAP accepted the responsibility of giving leadership towards the achievement of this object with the following action programme:

<sup>4</sup>) After the first international congress in 1904 it lasted until 1926 before a second one was held.

- Initiate, coordinate and guide work that has as its goal achievement of international technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of qualification and work towards this purpose by establishing appropriate committees as well as working through the regional organizations for implementation.
- Encourage and promote the development of regional organizations with common objectives and formulate guidelines for the structure and constitution of such regional organizations.

This programme covers guidance of all activities directed at harmonizing the profession regionally and, if possible, world-wide.

The standards committee IASC - see 5.4. below - is an autonomous committee of ICCAP.

5.4. The most direct approach to international cooperation in harmonization is by creating international committees either for the preparation of proposals for international statutory regulations or for issuing standards or guidelines. The best examples of such committees are the Groupe d'Etudes, an international advisory committee of accountants, delegated by the professional bodies of the countries constituting the European Economic Community and the International Accounting Standards Committee (IASC), founded after the 10th International Congress of Accountants at Sydney (1972). The important harmonization activities of these committees are the subject-matter of other papers in this issue, to which I would refer.

In the extent to which the Union Européenne des Experts Comptables Economiques et Financiers (UEC - see 5.7. below) is preparing and issuing recommendations or statements, its activities directly affect international harmonization.

5.5. In 1966 the American Institute of Certified Public Accountants (AICPA), the Canadian Institute of Chartered Accountants (CICA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and the Institute of Chartered Accountants of Ireland (ICAI) jointly formed a study-committee, called the Accountants International Study Group (AISG)<sup>5</sup>).

The object of this Group is to make comparative studies of accounting thought and practice in the participating countries and to report about the results of those studies. Although the views expressed in these reports are those of the members of the Study Group and not necessarily those of the participating bodies, this international cooperation of the Anglo-American Institutes has furthered a better understanding of current accounting problems. It certainly has opened the way to a greater uniformity in accounting practice in the countries involved and has favourably affected international accounting and auditing in countries that are influenced by either the American or the British profession.

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<sup>5</sup>) I take it that an outsider will feel perplexed when reading or hearing all these abbreviations (ICCAP, IASC, AICPA, CICA, ICAEW, ICAS, ICAI, AISG et al.).

5.6. There are also several national Institutes that, on a bilateral basis, have formed study groups for making comparative studies of the professional problems in their respective countries. These study groups are not aimed at harmonization in particular, but their studies will promote a mutual understanding of differences in the accounting profession and, thus, promote harmonization.

In so far as these study groups are established by Institutes from the same region, e.g. Europe, I feel that they may be regarded as substituting the regional committees for making comparative studies. If the regional committees were (more) active in this field, there would be less need for bilateral studies. Making the results of the bilateral comparative studies available to the regional committees would be a first step towards a greater efficiency.

However, I'm anxious to admit that „La critique est aisée, mais l'art est difficile”.

5.7. The history of the oldest regional body, the Union Européenne des Experts Comptables Economiques et Financiers (UEC) proves that really international cooperation of professional Institutes is a long-term objective. Founded in 1951 and embracing by 1963 all important professional institutes in Europe (other than the countries behind the Iron Curtain), it was not until 1970 that a more intensive action programme with possibilities of issuing recommendations could be developed. Reference is made to 5.4. above.

In the Americas and in Asia and in the Pacific really regional activities<sup>6</sup>) other than those at periodic conferences, are still in their infancy; in Africa there are as yet no regional bodies.

5.8. With ICCAP as a catalyst, the current position can be changed for the better. Primarily, however, the activities of the national Institutes proper should be stimulated. In this respect it is appropriate to refer to the comments made in 1962 by Mr. Paul Grady at the conclusion of the 8th International Congress of Accountants in New York in his summary of the technical discussions:

Many of the papers presented to the Congress urged that steps be taken to hasten the further development, understanding and acceptance of standards of auditing, accounting and reporting on an international basis. It is certain that the excellent technical papers and stimulating discussions we have heard during this International Congress will contribute substantially to the attainment of these objectives, but it would be a mistake to let the problem rest on this generality. Therefore, I should like to conclude my summarization by conveying to the official delegates from the sixty-two nations attending this Congress an important mandate from the discussion meetings. The mandate is this - that each delegation specifically charge itself with the responsibility of initiating the necessary research work to develop clear-cut statements of your own national auditing, accounting and reporting standards and that this

<sup>6</sup>) In the Americas: Asociación Interamericana de Contabilidad (AIC); in Asia and the Pacific: Conference of Asian and Pacific Accountants (CAPA).



work be completed in advance of the Ninth International Congress in 1967. Out of this foundation material it will be possible for our profession, on an international basis, to continue the evolutionary process of promoting the highest and soundest of these standards whenever they may exist.

5.9. Next to stimulating national activities, full attention should be given to the formation of strong regional bodies<sup>7</sup>), supported by active cooperation of the national institutes involved. The regional bodies should embark on comparative studies on all essential accountancy phenomena (incl. ethics and education), should make additional research and should try and harmonize as much as possible within their region.

Eventually, the existence and functioning of vital regional bodies will have to underly the functioning of a world-wide federal organization that is to cover all international cooperation. In a regional set-up the contacts between delegates in committees and other meetings can be far more frequent than in a world-wide organization. Consequently, the possibilities of coherence between Institutes will be greater on a regional than on a world-wide scale. Normally, an Institute will exert more influence by giving its views on a regional scale than on a world-wide one. This is of particular significance for the active but relatively small Institutes.

The European Institutes will have to spend much time, energy and money on making the UEC stronger and more effective than hitherto. It is in this manner that Europe will be able to attain a righteous position for exerting influence on and making significant contributions to world-wide activities in the various fields of accountancy.

Unfortunately, not all European Institutes are adequately aware of this necessity or are handicapped by too low budgets for arriving at this essential international cooperation.

Jointly, the Institutes will have to enable the UEC to proceed with comparative studies and to stimulate research either by member bodies or by special UEC-committees.

## **6 Is the need of standards indeed the ultimate goal of international cooperation by Institutes?**

6.1. As stated above and discussed in other papers of this special issue, all over the world a need of harmonization of accounting has manifested itself and has expanded in the course of the last decade. IASC (see under 5.4.) was created with a view to creating this harmonization; it started successfully and is working effectively in issuing exposure drafts and final standards. UEC has issued a number of recommendations. It made an agreement with IASC to avoid double work, which has resulted in the emphasis now being concentrated on the study of draft exposures issued by IASC. Of recommendations on auditing and ethics and on comparative studies.

6.2. Undoubtedly, the enthusiasm with which standards have been and are being prepared has stimulated the international activities of the leading

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<sup>7</sup>) Neither the geographic area covered by the regional bodies nor the number of those bodies need necessarily coincide with the continents.

professional bodies. These activities are very advantageous and should be continued for a long time to come. However, both the leading national Institutes and the already functioning regional bodies will have to realize that continual issues of standards will be possible only if adequate results of comparative studies and the analyses of the effects of modern developments become available. Harmonization committees are the *users* of fruits, they *grow* no fruits!

Moreover, standards are of a static nature; they formalize the professional activities involved. The speedier the technical and economic developments, the more they are at the risk of obsolescence and in need of periodical revision. Research and comparative studies lie at the root of a consistent modernization of our profession and are a prerequisite for keeping harmonization fresh and up to date. National Institutes and regional bodies are indicated for achieving this updating. This is one of the main reasons for stimulating the creation of strong regional bodies.

It should be realized that, by their very nature, standards are apt more to accentuate the *know-how* than the *know-why*. Thus, a customary use of standards tends more to the development of technicians on accounting than of accountants with an adequate basic knowledge of business economics, necessary for a proper understanding of what accounting data really represent<sup>8</sup>).

In this respect, too, it is essential that national and regional bodies give sufficient counterweight to a formalization of professional activities.

## **7 International cooperation and the individual accountant**

All international cooperation - either between public accountants in firms or between national Institutes - is achieved by contacts between individuals (partners or delegates). For the outcome of such contacts much depends on the sociability of the persons involved and their capability in bridging not only geographical distances but particularly the differences in languages and in ways of living. Conversancy with speaking and writing foreign languages is contributory to international understanding but, even so, idiomatic differences are sometimes an obstacle.

As contacts between persons of the same country take time before real personal confidence is established, it is only natural that establishing such confidence in the international field takes much more time. For this reason it is advisable to change as little as possible the persons designated for such international contacts and to provide well in advance for their eventual successors. International cooperation and contacts also imply much travelling, which is rather exhausting, especially on long eastward or westward trips. A good health and a capability to attend representative parties, etc. are prerequisites for such contacts.

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<sup>8</sup>) In the Netherlands the education of registeraccountants strongly emphasises the knowledge of business economics (or managerial economics). This deepens their insight into the significance of the data to be recorded or audited and increases the likelihood of reaching the right decisions as to how and why.

Much travelling and long stays abroad are injurious to family-life, particularly for families with young children. However, maintenance of international contacts should not be restricted to middle-aged and elderly people.

International cooperation between firms requires a full-time job from the partner(s), charged with this special mandate, the more so since it is essential that much attention be given to an open communication with the partners in the respective firms, particularly with those who are not engaged in international contacts and trips abroad.

And, last but not least, it should be realized that idealism is indispensable for fulfilment of functions in international committees or Institutes, whereas patience is required when waiting for clear results in the inevitably long run.